

THE POTTER'S HANDS FOUNDATION, INC.

ELMIRA, NEW YORK

**REVIEWED CONSOLIDATED FINANCIAL
STATEMENTS**

AND

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

DECEMBER 31, 2019 AND 2018



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>REVIEWED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Accountant's Review Report	3
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities and Changes in Net Assets	6
Consolidated Statements of Functional Expenses	7
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Directors
The Potter's Hands Foundation, Inc.

We have reviewed the accompanying consolidated financial statements of The Potter's Hands Foundation, Inc., which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter with Respect to Change of Accounting Methods

As discussed in Note A to the consolidated financial statements, in 2019, The Potter's Hands Foundation, Inc. adopted new accounting guidance for recognition of revenue and contributions received. Our opinion is not modified with respect to these matters.

Mengel, Metzger, Baw & Co. LLP

Elmira, New York
June 12, 2020

THE POTTER'S HANDS FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 69,760	\$ 60,968
Money market funds	159,329	204,685
Accounts receivable	<u>5,164</u>	<u>3,069</u>
TOTAL CURRENT ASSETS	234,253	268,722
 <u>PROPERTY AND EQUIPMENT</u>		
Land and improvements	81,902	41,916
Building	861,347	861,347
Furniture	44,248	44,248
Equipment	<u>1,700</u>	<u>2,200</u>
	989,197	949,711
Less allowances for depreciation	<u>60,454</u>	<u>29,809</u>
	928,743	919,902
 <u>OTHER ASSET</u>		
Goodwill, net of accumulated amortization of \$6,752 and \$3,376, respectively	<u>27,008</u>	<u>30,384</u>
TOTAL ASSETS	<u>\$ 1,190,004</u>	<u>\$ 1,219,008</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 7,847	\$ 624
Accrued payroll related expenses	1,109	435
Other taxes payable	<u>213</u>	<u>918</u>
TOTAL LIABILITIES	9,169	1,977
 <u>NET ASSETS</u> - without donor restrictions	 <u>1,180,835</u>	 <u>1,217,031</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,190,004</u>	<u>\$ 1,219,008</u>

See independent accountant's review report and accompanying notes which are an integral part of the consolidated financial statements.

THE POTTER'S HANDS FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Support and revenue:		
Contributions	\$ 338,722	\$ 251,146
Special events	11,570	100,105
Grants	-	1,745
In-kind contributions	23,072	70,216
Sale of baked goods	26,168	35,707
Interest income	<u>1,681</u>	<u>1,252</u>
TOTAL REVENUE	401,213	460,171
Expenses:		
Program services	356,704	292,193
Supporting services	<u>80,705</u>	<u>84,264</u>
TOTAL EXPENSES	<u>437,409</u>	<u>376,457</u>
CHANGE IN NET ASSETS	(36,196)	83,714
Net assets at beginning of year	<u>1,217,031</u>	<u>1,133,317</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,180,835</u>	<u>\$ 1,217,031</u>

See independent accountant's review report and accompanying notes which are an integral part of the consolidated financial statements.

THE POTTER'S HANDS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

(With Comparative Totals for 2018)

	<u>Program Services</u>	<u>Supporting Services</u>	<u>2019 Total</u>	<u>2018 Total</u>
Payroll and related	\$ 243,828	\$ 39,191	\$ 283,019	\$ 244,105
Insurance	6,589	-	6,589	2,892
Depreciation	31,158	-	31,158	29,809
Office supplies and postage	-	10,670	10,670	11,035
E-giving fees	-	1,785	1,785	2,319
Auto and transportation	1,162	29	1,190	4,864
Advertising	2,251	-	2,251	303
Program supplies	22,300	-	22,300	13,001
Utilities	11,493	-	11,493	10,563
Repairs and maintenance	13,187	-	13,187	4,111
Professional fees	-	9,916	9,916	5,518
Website expenses	-	397	397	312
Training expense	150	-	150	1,469
Special event expenses	-	18,717	18,717	26,972
Bakery supplies	12,642	-	12,642	12,864
Amortization	3,376	-	3,376	3,376
Sundry	8,569	-	8,569	2,944
	<u>\$ 356,704</u>	<u>\$ 80,705</u>	<u>\$ 437,409</u>	<u>\$ 376,457</u>

See independent accountant's review report and accompanying notes which are an integral part of the consolidated financial statements.

THE POTTER'S HANDS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Payroll and related	\$ 207,254	\$ 36,851	\$ 244,105
Insurance	2,892	-	2,892
Depreciation	29,809	-	29,809
Office supplies and postage	-	11,035	11,035
E-giving fees	-	2,319	2,319
Auto and transportation	3,607	1,257	4,864
Advertising	303	-	303
Program supplies	13,001	-	13,001
Utilities	10,563	-	10,563
Repairs and maintenance	4,111	-	4,111
Professional fees	-	5,518	5,518
Website expenses	-	312	312
Training expense	1,469	-	1,469
Special event expenses	-	26,972	26,972
Bakery supplies	12,864	-	12,864
Amortization	3,376	-	3,376
Sundry	2,944	-	2,944
	<u>\$ 292,193</u>	<u>\$ 84,264</u>	<u>\$ 376,457</u>

See independent accountant's review report and accompanying notes which are an integral part of the consolidated financial statements.

THE POTTER'S HANDS FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (36,196)	\$ 83,714
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
In-kind donation of property	(1,700)	(54,200)
Depreciation	31,158	29,809
Amortization	3,376	3,376
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	(2,095)	(3,069)
Accounts payable	7,223	624
Accrued payroll related expenses	674	(1,147)
Other taxes payable	(705)	918
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,735	60,025
<u>CASH FLOWS - INVESTING ACTIVITY</u>		
Purchase of property and equipment, net	(38,299)	(79,442)
NET CASH USED FOR INVESTING ACTIVITY	(38,299)	(79,442)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(36,564)	(19,417)
Cash and cash equivalents at beginning of year	265,653	285,070
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 229,089</u>	<u>\$ 265,653</u>

See independent accountant's review report and accompanying notes which are an integral part of the consolidated financial statements.

THE POTTER'S HANDS FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(See Independent Accountant's Review Report)

DECEMBER 31, 2019 AND 2018

NOTE A: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

The Potter's Hands Foundation, Inc. (the "Foundation") is a non-profit organization incorporated on October 15, 2013 with a mission to help females who have been involved in abusive situations to find wholeness, healing and a sense of self-worth while providing them a place to grow, heal and be free from the cruelty they have endured. The Foundation provides a residential safe house environment at no cost to victims of severe sexual exploitation and human trafficking. The Foundation is funded primarily through individual donors and grants from churches and other non-profit organizations. The program became operational in January 2018. In 2018 the Foundation acquired, through donation, Heavenly Treats, LLC, which prepares and sells baked goods for the benefit of the Foundation.

Principles of consolidation

The consolidated financial statements include the accounts of The Potter's Hands Foundation, Inc. and its wholly owned subsidiary, Heavenly Treats, LLC, which was acquired in 2018. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash and money market funds

Cash and money market funds are considered to be cash equivalents. Cash balances are maintained at a financial institution located in Upstate New York and are insured up to \$250,000. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Foundation has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management reviews accounts receivable periodically to determine if any receivables will potentially be uncollectible. After all attempts to collect a receivable have failed, the receivable is written off.

Property and equipment

Property and equipment donated to the Foundation are recorded at the estimated fair value at the date of donation. Purchased property and equipment are stated on the basis of cost. Once assets have been placed in service, depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives which range from five to forty years. Expenditures for renewals and betterments are capitalized, while expenditures for repairs and maintenance are charged to operations as incurred.

Goodwill

Goodwill is being amortized on a straight-line basis over ten years. Amortization of goodwill amounted to \$3,376 for both of the years ended December 31, 2019 and 2018.

Net assets

Net assets, revenues and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as net assets without donor restrictions or net assets with donor restrictions. At December 31, 2019 and 2018, the Foundation had no net assets with donor restrictions.

THE POTTER'S HANDS FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd
(See Independent Accountant's Review Report)

DECEMBER 31, 2019 AND 2018

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Revenue recognition

Contributions

Contributions are generally available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Grants and other contributions of cash and other assets are reported as donor restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as contributions without donor restrictions.

Special events revenue

The Foundation conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event—the exchange component, and a portion represents a contribution to the Foundation. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than the Foundation, are recorded as costs of direct benefits to donors in the statement of activities and changes in net assets. The performance obligation is delivery of the event. The Foundation separately presents in Note E the exchange and contribution components of the gross proceeds from special events. The Foundation receives support in the form of both contributions and in-kind contributions in exchange for providing sponsorship benefits. If support is received in a form other than cash, the transaction is recorded as in-kind contribution at the estimated fair value of the item or services received and at the point in time received. The sponsorship benefits occur generally over the same period.

In-kind contributions

In-kind contributions are recorded at their fair value as of the date received. Contributed services are recognized as in-kind contributions if the services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the services provided. Volunteer services that do not meet the above criteria are not recognized as revenue and are not reported in the accompanying consolidated financial statements.

Sale of baked goods

The Foundation offers a variety of decadent fudge and candy products, handmade by volunteers, to solicit and distribute contributions in support of the Foundation's mission. Revenues are recognized at the point in time when the customer obtains control of the goods, which is at the time of on-site purchase or delivery of the goods to the customer. The Foundation records a liability for sales tax whenever a taxable sale is recognized. No recognition of related taxes is made in sales or cost of sales.

THE POTTER'S HANDS FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd
(See Independent Accountant's Review Report)

DECEMBER 31, 2019 AND 2018

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Functional allocation of expenses

The costs of program and supporting service activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Tax exempt status

The Foundation is a not-for-profit organization exempt from federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code. The Foundation has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. The Foundation files a Form 990 tax return in the U.S. federal jurisdiction as well as New York State. With few exceptions, as of December 31, 2019, the Foundation is no longer subject to U.S. federal income tax examinations by tax authorities for years ended prior to December 31, 2016. The tax returns for years 2016 through 2019 are still subject to potential audit by the IRS and the taxing authorities in New York State. Management of the Foundation believes it has no material uncertain tax positions and, accordingly has not recognized any tax liability for unrecognized tax benefits. Heavenly Treats, LLC, as a single member LLC, is included in the filings of the Foundation.

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of new accounting principles

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board (FASB) issued new guidance related to revenue recognition (ASC 606), which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Foundation adopted ASC 606 with a date of the initial application of January 1, 2019.

The Foundation applied ASC 606 using the cumulative effect method, which generally requires the recognition of the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of net assets, at January 1, 2019. There was no adjustment to the opening balance of net assets at January 1, 2019, as a result of this new accounting standard. In addition, the comparative information has not been adjusted and continues to be reported under existing revenue guidance. The Foundation does not expect the adoption of the new revenue standard to have a material impact on its net income on an ongoing basis.

THE POTTER'S HANDS FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd
(See Independent Accountant's Review Report)

DECEMBER 31, 2019 AND 2018

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

As part of the adoption of ASC 606, the Foundation elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients

Contributions received and contributions made

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made". ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. For most resource recipients, this standard is effective for annual reporting periods beginning after December 15, 2018. The Foundation adopted the provisions of ASU 2018-08 applicable to contributions received and contributions made with a date of initial application of January 1, 2019 under a modified prospective basis. Accordingly, there is no effect on net assets.

Subsequent events

The Foundation has conducted an evaluation of potential subsequent events occurring after the consolidated statement of financial position date through June 12, 2020, which is the date the consolidated financial statements are available to be issued. See Note G for information regarding subsequent events.

NOTE B: CONTRACT ASSETS AND LIABILITIES

The Foundation has no contract assets or liabilities at December 31, 2019 or 2018. Accounts receivable are recorded when the right to consideration becomes unconditional and the billing process has been completed. Accounts receivable and revenue from contracts with customers are summarized as follows:

	<u>December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Accounts receivable	<u>\$ 5,164</u>	<u>\$ 3,069</u>	<u>\$ -</u>
	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	
<u>Revenue from contracts with customers</u>			
Sale of baked goods	\$ 26,168	\$ 35,707	
Special events	<u>11,570</u>	<u>100,105</u>	
Total	<u>\$ 37,738</u>	<u>\$ 135,812</u>	

THE POTTER'S HANDS FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd
(See Independent Accountant's Review Report)

DECEMBER 31, 2019 AND 2018

NOTE C: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash	\$ 69,760	\$ 60,968
Money market funds	159,329	204,685
Accounts receivable	5,164	3,069
	<u>\$ 234,253</u>	<u>\$ 268,722</u>

As part of the Foundation's liquidity management plan, financial assets are structured to be available as general expenditures, liabilities, and other obligations come due.

NOTE D: NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Undesignated	\$ 252,092	\$ 297,129
Invested in property and equipment	928,743	919,902
	<u>\$ 1,180,835</u>	<u>\$ 1,217,031</u>

NOTE E: SPECIAL EVENTS REVENUE

Gross receipts from special fundraising events recorded by the Foundation consist of exchange transaction revenue and contribution revenue as follows for the year ended December 31, 2019:

Contributions	\$ 89,632
Special event revenue	11,570
	<u>\$ 101,202</u>

THE POTTER'S HANDS FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd
(See Independent Accountant's Review Report)

DECEMBER 31, 2019 AND 2018

NOTE F: FUNCTIONAL EXPENSES

The consolidated financial statements report certain categories of expenses that are attributable to both program and supporting functions. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated on the basis of estimates of time and effort are payroll and related expenses.

NOTE G: SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Foundation's financial condition, liquidity, and future results of operations. The Foundation's operations are heavily dependent on donations from individuals, churches and corporations, as well as special events. This situation may depress donations during 2020. Consequently, these matters may hinder the ability to advance the Foundation's mission, and the financial condition and liquidity may be negatively impacted during 2020. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Foundation is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.